

Illinois' PAYER STATE Problem

Illinois pays far more in federal taxes than we get back in federal spending.

*This causes ~ **\$40B** to leave Illinois every year.*

- ➔ What causes this?
- ➔ How do we fix it?

Where We Rank:

- Illinois consistently ranks in the **BOTTOM THREE NATIONWIDE** in return of federal tax dollars
- Illinois gets shortchanged on both:
Federal Taxes (~\$20B/year)
Federal Spending (~\$20B/year)
- This has been going on since before the 1980's



What does this mean for Illinois?

- Under-investment in education and infrastructure
- Fiscal deficits in the State of Illinois and its cities
- Increased state taxes
- Industrial flight
- Drives a false narrative about Illinois' economy

Figure 2

The Mix of Federal Spending Differs Among States

Types of federal spending relative to GDP, by state, federal fiscal 2017

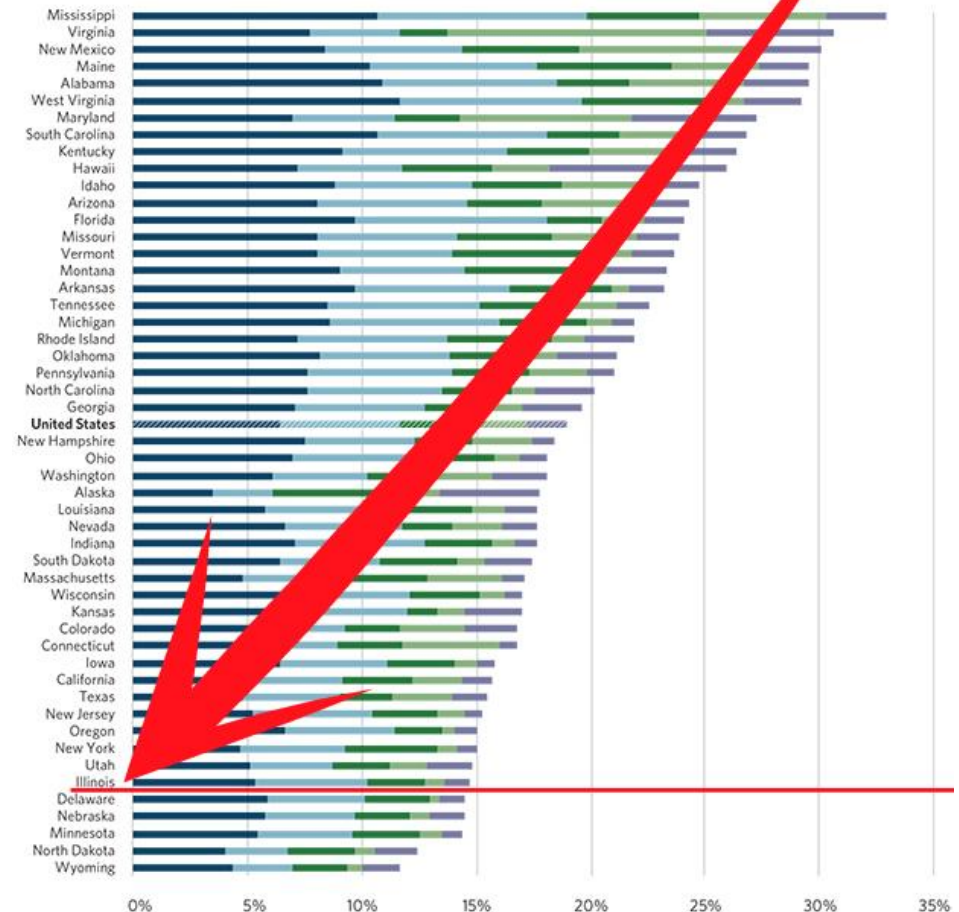


Chart from Pew Charitable Trusts

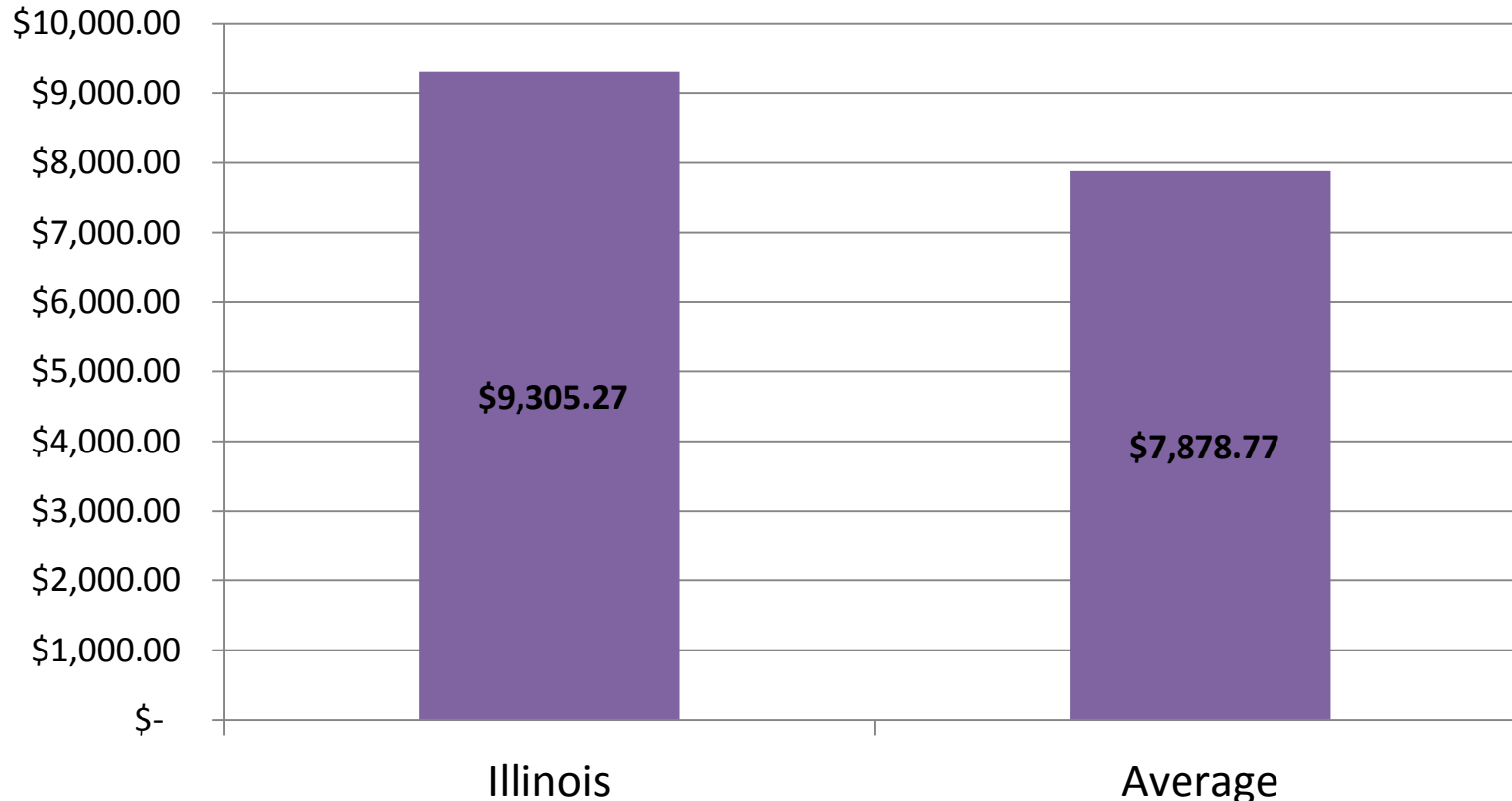
THE TAX SIDE

Contributions to the Federal Budget:

1. Income and Self-Employment Taxes.
2. Payroll Taxes that fund programs like Social Security and Medicare.
3. Business Taxes.
4. Excise Taxes on things like gasoline.
5. Estate and Gift taxes.

Illinois Pays \$1,427 per person MORE in Federal Taxes than U.S. Average (2013)

Taxes Paid to the Federal Government

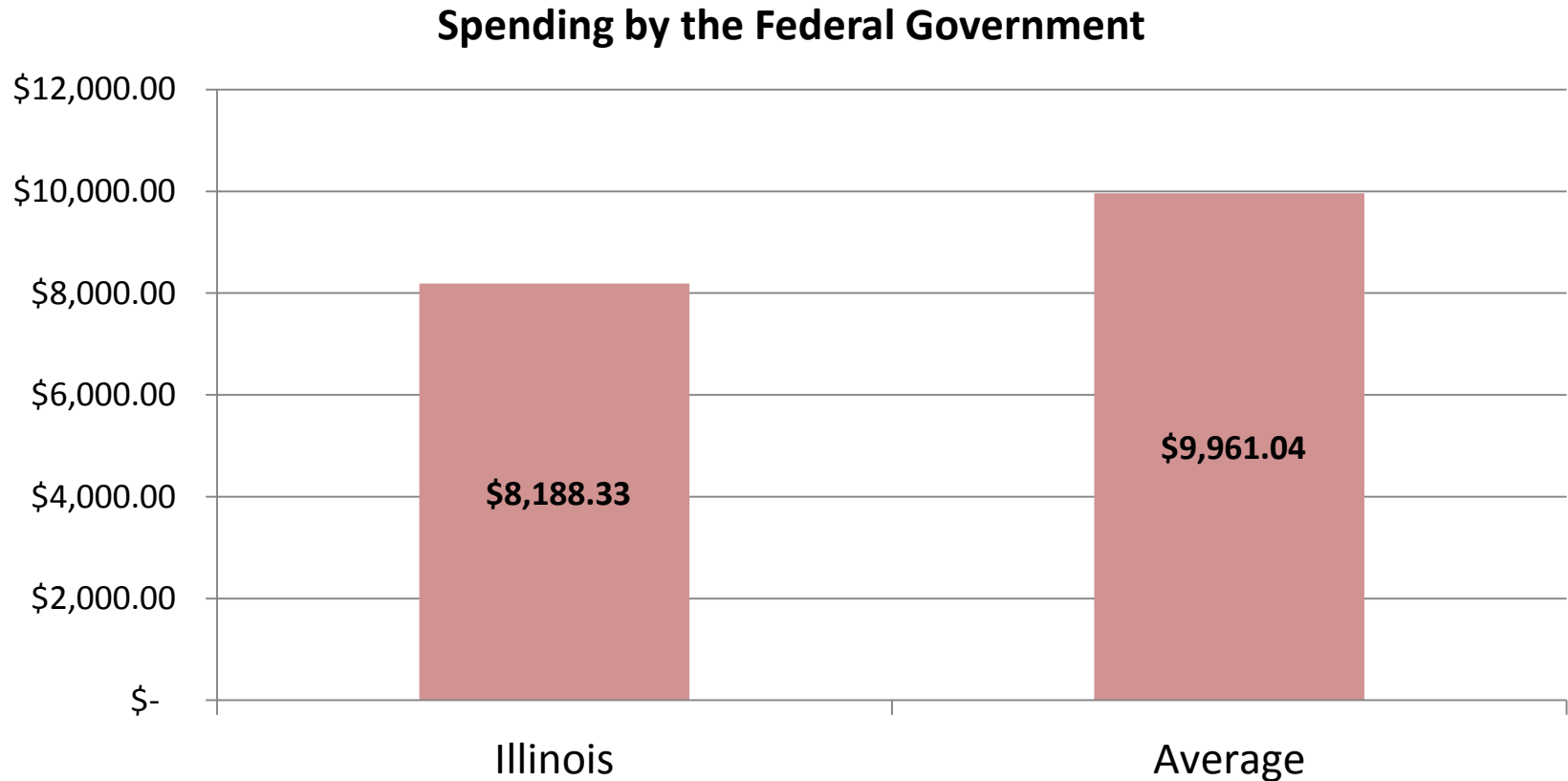


➔ this multiplies out to \$18.4B per year in extra Federal Taxes for Illinois.

THE SPENDING SIDE

- 1. Federal Contracts and Discretionary Programs**
Highway Construction, Military & Weapons, Federal Offices, National Labs, ...
- 2. Federal dollars paid directly to States, mostly to fund public assistance programs**
Medicaid, Head Start, CDBG, ...
- 3. Direct benefits from the federal government, paid to individuals**
Social Security, Medicare, ...

Illinois Receives \$1,773 per person LESS in Federal Spending than U.S. Average



➔ this multiplies out to **\$22.8B per year** missing from Illinois' economy.

What \$20B / year could buy



40 Circle Interchange Upgrades



100 High Speed Road Bridges



200 Elevated Parks (like 606)

Who are the big **PAYER States**?

STATE	Payer State Deficit (2013)
New York	-\$58 B
New Jersey	-\$54 B
Minnesota	-\$53 B
Illinois	-\$43 B
California	-\$39 B
Texas	-\$38 B
Ohio	-\$32 B
Massachusetts	-\$24 B
Connecticut	-\$16 B
Delaware	-\$11 B

Who are the big **TAKER States**?

State	Taker State Surplus (2013)
Virginia	\$59B
Maryland	\$32B
Florida	\$31B
Alabama	\$28B
South Carolina	\$23B
Arizona	\$23B
Mississippi	\$21B
North Carolina	\$17B
New Mexico	\$17B
Kentucky	\$15B

The “Payer State” Battle:

Big State vs. Small State

House vs. Senate

- 30 Small “Taker States” Hold 60% of U.S. Senate
- 20 Larger “Payer States” Hold 52% of U.S. House

The place to fight this battle is in the House

➔ Then force a better compromise with Senate

What Bill Foster is Doing About The Payer-State Problem

1. Formed *Payer State Caucus*

Co-Chairs: Scott Garrett (R-NJ), Bill Foster (D-IL)

2. Increase Transparency via Annual Reporting

H.R. 787: PAYER STATE TRANSPARENCY ACT of 2015

3. State-Level Support and Public Awareness

Illinois Support for U.S. H.R. 787 – Payer State:

IL House Resolution 209 – *Reps. Manley, Walsh, Chapa LaVia*

IL Senate Resolution 1102 – *Sen. Pat McGuire*

4. Chip Away at Legislative Earmarks and Formulae that Systematically Steer Money into Taker States

– *See Following Examples*

Example: Federal Highway Funding

TOP TEN	Per Capita
Alaska	\$ 609.20
Wyoming	\$ 405.41
Montana	\$ 353.65
North Dakota	\$ 314.33
South Dakota	\$ 293.01
Vermont	\$ 262.30
West Virginia	\$ 193.74
Rhode Island	\$ 163.55
Delaware	\$ 162.17
Idaho	\$ 161.84

BOTTOM TEN	Per Capita
Colorado	\$ 92.50
New Jersey	\$ 92.30
Illinois	\$ 89.62
Washington	\$ 86.91
Maryland	\$ 86.56
Florida	\$ 86.21
Michigan	\$ 83.81
California	\$ 81.78
Massachusetts	\$ 75.88
New York	\$ 69.88

U.S. Average Highway Spending Per Capita: \$ 106.43

Federal Highway Funding: Progress to Date

On November 16, 2015,
Rep. Bill Foster Introduced Amendment to
Highway/Transportation Bill
to begin dealing with the Payer-State problem.

➔ Passed U.S. House of Representatives Nov. 19 ☺

➔ Eliminated in Senate Conference Committee
mid-December 2015 ☹

Example: EPSCoR States

“Experimental Program to Stimulate Competitive Research”

- Started in 1979 with \$1M Budget at NSF
- Purpose to stimulate scientific research at universities in 5 “Underserved” States
- Now grown to over \$180M at several agencies
- Uses formula designed to favor small states

On June 2, 2015, Reps. Foster & Garrett
Introduced Amendment to Strike EPSCoR
and distribute on merit based system.

➔ *Narrowly defeated on first attempt*

Example: Medicaid Spending

“FMAP” Federal Matching Percentages

- For **Illinois**, the Federal Government picks up **50%** of Medicaid Spending
- For **Indiana**, the Federal Government picks up **66%** of Medicaid Spending
- Federal matching is **over 75%** for some states.

Reforming this system was heavily debated during the Affordable Care Act.

➔ *No action was taken due to a rebellion from the Blue Dog States*

Example: Small-State Bias in Federal Disaster Declarations

- Based on Amount of Property Damage,
divided by the state's population (!! ? !!)
(If damage exceeds \$1.32 *per person in the state*,
FEMA recommends a disaster declaration)
- ➔ The exact same event can be declared a federal disaster if it occurs in a small state, but not if it occurs in a big one!

A Tale Of Two States:

New York and Vermont,
Spring 2011



A Tale Of Two States

- In 2011, flooding caused millions of dollars in damage in both Vermont and upstate New York
- **Vermont disaster assistance: \$1.8M**
 - 556 Approved Applicants
- **New York disaster assistance: *ZERO***
 - *Because NY damage was not as large PER CAPITA, so it did not qualify.*

Illinois' Fix for the Disaster Formula

- Senators Durbin and Kirk introduced S. 870, the *Fairness in Federal Disaster Declarations Act of 2015*.
- House companion bill H.R. 1685 introduced by Rep. Rodney Davis, cosponsored by Reps. Bost, Bustos, Foster, Kinzinger, and Shimkus.

*One Small Step for
Payer States...*

114TH CONGRESS
1ST SESSION

S. 870

To require rulemaking by the Administrator of the Federal Emergency Management Agency to address considerations in evaluating the need for public and individual disaster assistance, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 26, 2015

Mr. DURBIN (for himself and Mr. KIRK) introduced the following bill; which was read twice and referred to the Committee on Homeland Security and Governmental Affairs

A BILL

To require rulemaking by the Administrator of the Federal Emergency Management Agency to address considerations in evaluating the need for public and individual disaster assistance, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the “Fairness in Federal
5 Disaster Declarations Act of 2015”.

6 SEC. 2. REGULATORY ACTION REQUIRED.

7 (a) IN GENERAL.—Not later than 120 days after the
8 date of enactment of this Act, the Administrator of the

“PAYER-STATE” RESEARCH CREDITS

- The Tax Foundation
<http://taxfoundation.org>
- The National Priorities Project
www.nationalpriorities.org
- USA SPENDING.gov
USASpending.gov



Sen. Daniel Patrick Moynihan